DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
INSTALLATIONS AND ENVIRONMENT
110 ARMY PENTAGON
WASHINGTON DC 20310-0110

REPLY TO
ATTENTION OF

July 31, 2003

The Honorable Duncan Hunter
Chairman
House Armed Services Committee
United States House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Under Title 10 United States Code, Section 2688, the Army is required to notify the appropriate committees of the Congress before conveying a utility system to a municipal, private, regional, district, cooperative utility company or other entity.

A summary of the economic analysis supporting privatization of the Fort Sam Houston and Camp Bullis electrical distribution utility system is enclosed. Privatization is expected to result in an estimated annual cost avoidance of $1.2 million compared to the cost of continued Government ownership and operation.

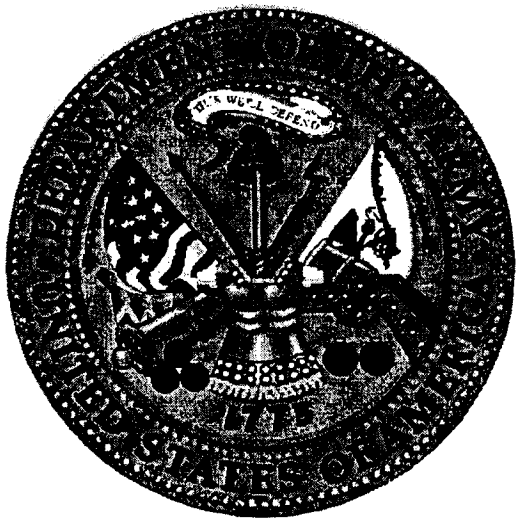
This is to inform you that the Army intends to transfer the electrical distribution utility system and award a fifty-year contract for utility services at the Fort Sam Houston and Camp Bullis, to the City Public Services 21 days after the receipt of this letter.

Sincerely,

William A. Armbruster
Deputy Assistant Secretary of the Army
Privatization & Partnerships

Enclosure

cc: The Honorable Ike Skelton
Ranking Member



Department of the Army
Fort Sam Houston and Camp Bullis, Texas
Privatization of the Electrical Distribution Utility System

Economic Analysis Summary

July 2003

Executive Summary: The economic analysis conducted for the electrical distribution utility system at Fort Sam Houston and Camp Bullis demonstrates that privatization will reduce the Government's cost over the 50-year contract term. The economic analysis for the electrical distribution system resulted in an estimated annual cost avoidance of $1.2 million when compared with respective costs of continued Government ownership and operation.

Overview of the Utility System: The electrical distributions at Fort Sam Houston and Camp Bullis are conventional 13.2 KV systems and are dominantly overhead construction. Five phased renovation projects were completed between 1980 and 1994 resulting in renovation of approximately 40% of the lines, transformers and services. These projects converted all existing 4.16 KV circuits to 13.2 KV circuits and transferred all circuits on Fort Sam Houston to a single supply point known as the East Substation. Some circuits in the National Historic District on Fort Sam Houston were converted from overhead to underground construction, but this improvement was limited due to project funding constraints.

Description of the Government's "Should Cost" estimate (SCE): The Government's "should cost" is the total cost of service to own, operate, maintain and recapitalize the electrical distribution utility system. It is based on the number of employees, direct and indirect labor costs, contracting support, and the equipment and materials used to perform work on the electrical distribution utility system.

Recommended Fair Market Value (FMV): 10 U.S.C. Section 2688 requires the Army to receive fair market value for the utility system in return for conveying the system to the contractor. The determined high cost to bring the system to standard had a significant effect on its FMV. The Government, in working with CPS, determined fair market value to be the nominal amount of $1.00. DAIM-FDF memorandum dated 30 Apr 2002; subject, Utility Systems Privatization - Fair Market Value was referenced when setting the FMV to the nominal value of $1.00.

Procurement History: The following outlines points of interest in the procurement process.

1. The solicitation was issued 17 April 2000 with a closing date of 31 May 2001.

2. A Proposal was received only from City Public Services (CPS).

3. Negotiations commenced in June 2001 but CPS' offer as proposed, was not acceptable to the Government due to restrictive/unacceptable requirements on the part of CPS.

4. An impasse between the CPS and Government requirements was defined in December 2001.

5. The Government and CPS continued discussions and agreed to pursue privatization through the use of the GSA Area Wide contract on 3 April 2003, which has produced acceptable results.

Life Cycle Cost Analysis (LCCA): The privatization alternatives were evaluated in comparison with the Status Quo (Should Cost) alternative. The LCCAs of each alternative was developed utilizing UPEAST 5.1. The results of the LCCA for Government Ownership and the Contractor Ownership Best Value Alternative are summarized in the following tables:

Alternatives	Period (Years)	Net Present Value ($)	Equivalent Uniform Annual Cost	Annual Cost Avoidance $	%
Government Owned	50	$ 69.265 M	$ 4.152 M	--	--
Contractor Ownership	50	$ 47.901 M	$ 2.871M	$ 1.281 M	30.9%

Conclusions and Recommendations: Privatization of the Fort Sam Houston and Camp Bullis Electrical Distribution Utility System is economical. Additionally, the following findings are provided:

1. The privatization of the Fort Sam Houston and Camp Bullis Electrical Distribution Utility System will eliminate the need for the installation to perform these functions and will allow a firm whose competence is electrical distribution utility system operation and maintenance to operate and maintain the system.

2. The privatization of the Fort Sam Houston and Camp Bullis Electrical Distribution Utility System assures future upgrades and additions to these systems.

3. This privatization action will be a cost-effective means to provide safe and reliable electrical distribution utility services to the Installation.